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FM AMEMBASSY BAGHDAD
TO RUEHC/SECSTATE WASHDC PRIORITY 7858
INFO RHEHAAA/WHITE HOUSE WASHINGTON DC PRIORITY
RUEKJCS/SECDEF WASHINGTON DC PRIORITY
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RUCNRAQ/IRAQ COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 004127

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E.O. 12958: DECL: 10/29/2016
TAGS: [PREL](#) [PGOV](#) [PINS](#) [ECON](#) [IZ](#)
SUBJECT: DEPUTY PRESIDENT MAHDI DISCUSSES SECURITY AND
ECONOMIC SITUATIONS

Classified By: Deputy Political Counselor Robert Gilchrist for reasons
1.4 (b) and (d).

¶1. (C) SUMMARY: Deputy President Adil Abd al-Mahdi told John Hannah, the National Security Adviser to the Vice President, October 17 that the security situation is bad (but statistically getting slightly better), with more Iraqis, particularly in Baghdad, feeling personally threatened. Mahdi stated that there needs to be a new security agreement or protocol between the U.S. and Iraq that delimits responsibilities and begins to regulate the presence of U.S. forces. Mahdi then added that each community, whether Sunni or Shi'a, should take responsibility into its own hands to fight insurgents, terrorists, and militias (as the Kurds have already done). This will unite, not split, the country. Mahdi said confronting militias cannot be the priority, but there needs to be a parallel effort against al-Qaida, Saddamists, and other terrorists. The Deputy President praised the recently passed Investment Law, and said there needs to be more demonstrable results on reconstruction and investment. Decisions must be made that are not being made, and money must be spent that is not being spent. Mahdi said that, while he favors the centralization of the oil file, there is a debate within the Shi'a Coalition over centralization or decentralization of responsibility. Mahdi cast doubt on the idea that the insurgency could be bought out by an increased share of oil to Sunni areas. While "oil for peace" is a good slogan, Mahdi said the insurgents and terrorists, particularly the Saddamists and al-Qaida, want full power, not an increased share of oil wealth. END
SUMMARY.

Security Situation and Militias

¶2. (C) Deputy President Adil Abd al-Mahdi told John Hannah, the National Security Adviser to the Vice President, October 17 that the security situation is very bad, but statistically getting better. Iraqi citizens feel they are threatened, particularly after Samarra; in Baghdad, residents feel directly threatened, with ethnic cleansing now occurring. Mahdi stated that there needs to be a new

security agreement or protocol between the U.S. and Iraq that delimits responsibilities and regulates the presence of U.S. forces. He said there must be a clarification of responsibilities and authorities because it is now too easy for each side to blame the other. Iraqi security officials say their "hands are tied" and that they cannot do anything without MNF-I agreement. Mahdi urged the U.S. to have greater trust in its Iraqi partners and remove their excuses by clarifying that the GOI is in control of security and is the responsible party for improving the situation.

13. (C) Mahdi recommended a change in approach whereby each community, whether Sunni or Shi'a, should take responsibility into its own hands to fight insurgents, terrorists, and militias, as had already occurred with the Kurds. This will unite, not split, the country. Mahdi added that this being done now in Fallujah and other parts of Anbar and should be done in Basrah, Baghdad, and other mixed areas. He described community self-protection as an asset to the overall security effort. U.S. forces would then be able to reduce their footprint and exposure in major urban areas and focus on their support mission for the Iraqi Security Forces.

14. (C) Mahdi said the security situation would have been worse had CPA retained the old pre-2003 army of Saddam. Now, there is no internal threat from the army, with little penetration of the ranks and no attacks on administration or

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headquarters targets. On the other hand, the Facility Protections Service (FPS) is a mixture of insurgents, militia, and government forces that are a serious problem and accountable to no one.

15. (C) Mahdi told Hannah that Iraq will need time to deal with the security situation, and that there will be setbacks along the way. On confronting militias, Mahdi said Prime Minister Maliki is hesitating because of pressure within his own party (Dawa) and because of the uncertainty of support within the Shi'a Coalition. Mahdi stated that the Shi'a still view themselves as victims and cannot reconcile the idea of attacking fellow Shi'a while terrorists are getting stronger and while the state cannot defend its citizens (and militia groups like the Jaysh al-Mahdi are doing so). Mahdi said confronting militias cannot be the priority, but there needs to be a parallel effort against al-Qaida, Saddamists, and other terrorists.

Economic Matters: Investment Law, Hydrocarbons, and Corruption

16. (C) Deputy President Mahdi described the provisions of the recently-passed Investment Law as good and agreed with the assessment that the law had been improved in the Council of Representatives. He added that KRG Prime Minister Nechervan Barzani should be coming to Baghdad to discuss the hydrocarbons issues. Mahdi said that the UIA favors centralization of the oil file. The Deputy President supported the idea of a National Oil Company, which had existed previously but

was dissolved by Saddam Hussein into the Ministry of Oil. He claimed that the national oil company worked better and had more professional staff. Mahdi also discussed his idea that he had presented to the Prime Minister of preparing the national budget based on a fixed price of oil and using any extra revenue to cover reconstruction costs and investment. He highlighted the positive role that the reconstruction board had played in the 1950's.

17. (C) While insisting on the importance of making clear that Iraq's oil revenues must be fairly shared among all its people, Mahdi cast doubt on the idea that the insurgency could be bought out by an increased share of oil to Sunni areas. While "oil for peace" is a good slogan, Mahdi said the insurgents and terrorists, particularly the Saddamists and al-Qaida, want full power, not an increased share of oil wealth. Mahdi said the passive majority of Sunni Arabs could be convinced to support the state if they see results, particularly large scale reconstruction in the north and south of Iraq. The Deputy President added that money cannot just be spent on pensions and salaries, but also on projects and investment. When asked when this reconstruction will occur and unspent funds utilized, Mahdi blamed it on the lack of good management, inherited systems, and education. He said there are monies, "safe areas," and identified projects, but no decisions have been taken and no follow-up has occurred ? bemoaning that there has been "nothing real from the overthrow of Saddam Hussein." He blamed this situation on a lack of capacity, not security, and warned that over-zealous corruption campaigns threatened to paralyze the GOI from executing its budget on behalf of the people.

18. (C) While acknowledging corruption as a problem, Mahdi warned that so is the Commission on Public Integrity (CPI), which is not doing things right. As opposed to auditing and investigations, it is targeting officials, thereby putting fear in the system. Now, no one wants to take responsibility for signing contracts for fear that they will be

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accused of corruption.

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Federalism and Region Formation Law
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19. (C) Deputy President Mahdi described the debate on the region formation law as political, saying the Constitution already enshrined federalism and that the law was just related to executive procedures to form regions. He added that there was a common agreement between the political parties, including the Sunni Arab bloc, on constitutional review and the region formation law. He said the boycott on the final vote was related to fears that SCIRI would benefit (Sadrists and Fadhila) and to fears that it will split the country (Sunni Arab parties). He stated that there is pressure on Tawafuq leaders from Salah al-Mutlaq, and that Iraqi Islamic Party (IIP) does not want to look less nationalistic. Mahdi said, "We think the region formation law is a positive development without which

the constitution would not be respected." He added that without federalism, they could not proceed on the Federation Council (NOTE: The Federation Council is discussed in Article 65 of the Constitution. END NOTE), which could not be elaborated on during the Constitution drafting because the federal system was not yet defined.

¶10. (U) This cable was cleared by OVPNSA John Hannah.
KHALILZAD